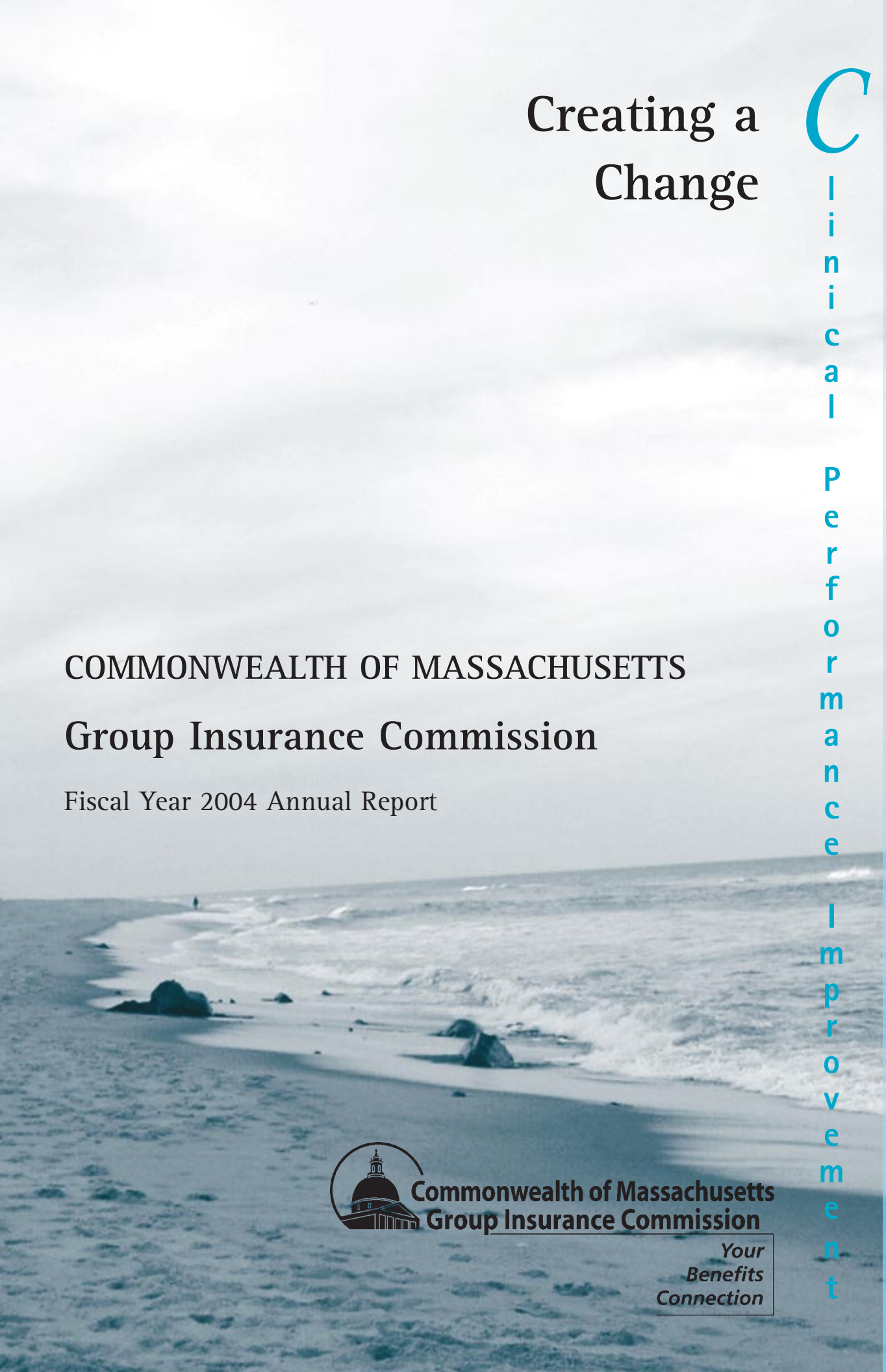
Creating a Change

Clinical Performance Improvement

COMMONWEALTH OF MASSACHUSETTS

Group Insurance Commission

Fiscal Year 2004 Annual Report



Commonwealth of Massachusetts
Group Insurance Commission

Your Benefits Connection

The Group Insurance Commission

The mission of the GIC is to provide high value life, health, and other insurance benefits to state employees, retirees, and their survivors and dependents. The agency works with vendors selected through competitive bidding processes to offer cost effective services through rigorous plan design and careful management. The agency's ultimate performance goal is enrollee satisfaction with cost-effective, high-quality benefit plans.

The GIC Offers the Following Benefit Programs:

- A diverse array of health insurance options
- Basic and optional life insurance
- Long Term Disability (LTD) insurance
- Dental/Vision coverage for managers, legislators, legislative staff and certain Executive Office employees
- Dependent Care Assistance Program (DCAP)
- Health Care Spending Account (HCSA)
- Retiree Dental Coverage
- Retiree Discount Vision Plan

Commonwealth of Massachusetts
Group Insurance Commission
Fiscal Year 2004 Annual Report
Editor: *Cynthia E. McGrath*
Design and printing: *Red Sun Press*

Printed on Recycled Paper

Dear Friends:

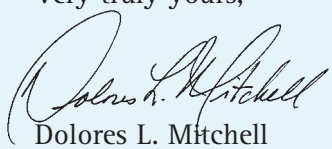
Every health care purchaser in America is gravely concerned about continued increases in costs that far exceed the rate of economic growth. For that reason, the Group Insurance Commission is particularly proud of our success in mitigating rapidly escalating health care cost trends. We have done this with particularly lean staffing levels; our administrative costs represent only 0.4% of expenditures. Nevertheless, addressing the cost problem continues to be a major goal of the Commission. Over the years we have used a number of strategies to help contain costs, including sharing some of the cost increases with our enrollees.

The GIC has now concluded that the only way left to tackle costs is to work harder on quality improvement, where there is some hope that by encouraging enrollees to utilize efficient and effective providers we can continue to provide quality service and reduce costs caused by medical errors. To that end, in FY04 we began a three-year strategic plan called the Clinical Performance Improvement (CPI) Initiative to give incentives to providers to improve quality and control costs, as well as to give incentives to enrollees to choose the best and most cost-efficient providers. Its major components include collecting data that demonstrate the relative cost-efficiency of doctors and hospitals; working with our health plans to develop benefit packages that reward the higher performing providers; and encouraging members to use these high-quality providers. There has been some questioning of the CPI Initiative, largely from provider organizations who are apprehensive about being ranked, with the results being made public. At the same time, however, the program has attracted national attention and support.

When we rolled out new health plans that would begin to reward enrollees for choosing quality and cost efficient providers, we asked most active employees to select a new health plan, giving them three new options. We wanted employees to take a good look at their choices and take charge of their own health. GIC staff, GIC Coordinators located throughout state government, and our health plans then successfully completed a major re-enrollment of over 50,000 people. This feat was a model of government working collaboratively with the private sector to solve a difficult problem.

Our CPI Initiative and this year's annual enrollment represent the first steps toward a sea change in the way health care is provided, delivered, used and paid for. We hope that as you read this annual report you will conclude that our programs make prudent use of taxpayers' money, and help to set a higher health care quality standard for the benefit of all the citizens of the Commonwealth.

Very truly yours,



Dolores L. Mitchell
Executive Director

Creating a "C" Change:

A STORM AT SEA – THE HEALTH CARE CHALLENGE INTENSIFIES

Health care continues to pose a challenge for employers and governments across the United States. The dramatic growth in medical expenses has translated into skyrocketing health care premiums. For the Commonwealth, the average per enrollee cost of health insurance jumped 41% from fiscal year 2000 through 2004, rising from $4,482 to $6,315, while Mercer Human Resource Consulting statistics reveal that the national average cost of employer-sponsored health insurance surged even more at 51%.

These increases have occurred as traditional techniques for managing health plan costs, including managed care, have become less and less effective. The backlash against managed care, the use of broader provider networks, the elimination of prior approval requirements, direct-to-consumer marketing of prescription drugs, an influx of new expensive drugs, increased use of high-technology equipment, and an aging population have combined to drive up costs.

As these pressures have escalated, quality improvement has often taken a back seat to cost containment. The focus of many employers has been to shift costs to enrollees. Some have even chosen to eliminate health care coverage altogether. Those employers that opt to shift costs do so by some combination of increasing employee premiums, deductibles and copays. The GIC has also had to resort to this option, raising co-pays and deductibles in FY03 – reducing state costs over $100 million in the last three years.

The GIC felt, however, that cost shifting was only a short-term solution to the problem of increasing costs. Yet, we also knew that the state was going to continue to have lean fiscal times, and the GIC needed to contribute to solving the state's fiscal dilemma. When going out to bid for our health plan contracts, we were looking for a new way to save money, while improving the quality of care.

THE HEALTH CARE QUALITY GAP

Numerous studies have documented that health care quality varies greatly among providers. According to a June 2003 RAND study published in the *New England Journal of Medicine*, less than 55% of patients receive care that meets medical best practice quality standards. This quality gap - defined by the Institute of Medicine as timely and effective treatment with patient-centered screening, diagnosis, treatment, and follow-up - varies widely, depending upon medical condition. Other studies have found the same pattern of variability and gaps in care, including the Institute of Medicine's 2001 report, "Crossing the Quality Chasm," which found that the U.S. health care delivery system does not provide consistent, high-quality medical care to all people.

THE GIC'S SOLUTION – THE CLINICAL PERFORMANCE IMPROVEMENT INITIATIVE

To address this quality gap, we formulated an initiative we call the Clinical Performance Improvement (CPI) Initiative. This three-year strategic plan's goal seeks to engage health plans, providers and enrollees to improve quality and contain costs. To do this, the GIC, in conjunction with our consultant, is analyzing provider practice patterns and developing provider profiles based on quality and cost-effectiveness so that our plans can help our members select quality care. Encouraging enrollees to receive care from higher performing providers presents an opportunity for improved care and significant savings both to enrollees and the Commonwealth.

NEW CPI INITIATIVE HEALTH PLAN OPTIONS

We asked our health plans to take a new look at how they would encourage use of the quality care and information that provider profiles provide. Two of our plans rose to the challenge to offer enrollees a new way to select their care. These plans encourage members, through lower out-of-pocket costs, to seek care from higher-quality, cost-effective providers:

Navigator by Tufts Health Plan - a preferred provider organization (PPO) plan that offers a better benefit for members who select a higher quality and more cost-effective hospital.

Commonwealth Indemnity Community Choice Plan - a PPO-type plan that offers higher benefits for routine procedures at 40 network hospitals; higher benefits are also provided for certain complex procedures and emergencies treated at other hospitals with patient safety systems in place. Out of network hospitals are still available, but at a much higher deductible.

Additional CPI plans will be offered over the next two years.

COMMUNICATIONS KEY TO ANNUAL ENROLLMENT SUCCESS

With the implementation of the 'CPI' plans, the GIC retained its regional HMOs, but discontinued offering some of its larger plans, including the Commonwealth PPO, Harvard Pilgrim Health Care's HMO and Tufts Health Plan's HMO. The former plans had a combined enrollment of over 53,000 members. To face the enormous challenge of educating enrollees about the reasons for these changes and their new plan choices, our FY05 annual enrollment campaign used multiple communication channels to help enrollees weigh their health plan options and take charge of their own health. In addition to the annual *Benefit Decision Guide* and *For Your Benefit* newsletter, the GIC used e-mail messages, website postings, GIC Coordinator training sessions, multiple health fairs, and direct mail to get the word out. These efforts paid off and over 55,000 enrollees selected a new health plan.

GIC RECOGNIZED FOR ITS INITIATIVES

The GIC received national recognition for its CPI Initiative, with numerous citations in health publications and the general press, as well as requests for speeches. The America's Health Insurance Plans rewarded the Navigator Plan, designed in response to the CPI Initiative, an "Innovator Award". And, the CPI Initiative was designated as inventive and groundbreaking when the New England Employee Benefits Council bestowed its "Best Practices of 2004" Award upon the GIC at its annual awards conference in December 2004.

The GIC has also used claims data to identify other opportunities to improve care for individual enrollees. Developed in cooperation with Tufts Health Plan and Unicare, the GIC's Indemnity Plan administrator, these programs identify potential clinical interventions that will improve care and avoid potential medical errors. With the Tufts program, physicians are informed of opportunities to enhance care and reduce medical errors when software detects inconsistencies with best medical practices. Under the Unicare program, members with chronic health conditions receive periodic personalized health care statements that help the member improve his/her own health care. The package also includes a companion report for the member's physician, which helps the physician provide high quality, cost-conscious care, as well as information critical for coordinating care with other physicians who may be treating the patient. The GIC received accolades for both of these claims information-based programs when the Massachusetts Health Data Consortium awarded the GIC its prestigious "Investing in Information Award" at its October 2004 HealthMart conference.

NEW MEDICARE AND NON-MEDICARE COMBINATION COVERAGE OPTIONS

The GIC added plan options for couples with both Medicare and Non-Medicare coverage. The Commonwealth Indemnity Medicare Extension (OME) Plan continues to be the most popular GIC Medicare plan offering. Now, non-Medicare spouses of OME Plan members have two new choices, Commonwealth Indemnity PLUS and the Community Choice Plan. The non-Medicare spouse may continue to enroll in the comprehensive basic Indemnity Plan.

EMPLOYEE PREMIUM CONTRIBUTION CHANGE

The FY04 budget approved by the Legislature and signed by the Governor made changes to active employees' basic life and health premium contributions:

- Employees hired on or before June 30, 2003 with salaries of $35,000 or more pay 20% of their monthly basic life and health insurance premium.
- New employees hired after June 30, 2003, regardless of salary, pay 25% of their monthly basic life and health insurance premium.
- Employees earning less than $35,000 hired on or before June 30, 2003 and retirees' premium contribution percentages remained unchanged at 85%.

To make these changes, the GIC quickly put in place new operational procedures to collect salary data on all employees. The systems department collected salaries from offline agencies, which do not have an interface with the GIC's computer system, and implemented programming changes to ensure that the correct employee deductions were made. Operational and systems procedures were quickly put in place, with most of the new payroll deductions made in August for the September 1, 2003 premium.

CONTINUING THE MOMENTUM TO IMPROVE PATIENT SAFETY

The GIC continued its work with the Leapfrog Group, a coalition of employers committed to reducing preventable hospital-based medical mistakes. The GIC worked with other Massachusetts employers to encourage hospitals to report to the Leapfrog Group their progress in implementing patient safety measures. These efforts paid off, as an impressive 94% of Massachusetts hospitals reported their progress on these measures for calendar year 2003, a 16% increase over the previous year.

The GIC also completed our three-year patient-safety-focused contract with our health plans begun in FY02. All five of our HMOs received a bonus for increasing the percentage of enrollee admissions to hospitals that met the 'Leapfrog standards'. A total of $69,000 in incentive payments were paid to our HMOs for their FY04 results, with Neighborhood Health Plan receiving the largest bonus for its success.

Program News

MANAGING OUR PROGRAMS

Ongoing telephone and e-mail contact with our carriers are critical to the day-to-day success of our programs. To complement these efforts, we hold periodic operational meetings and site visits. Typically, meetings might include review of customer service benchmarks, complex medical cases, benefit reviews, operational and system concerns, financial statements and communication feedback. These meetings result in programs that work better for enrollees and the Commonwealth alike.

OPTIONAL LIFE INSURANCE

Concerned about the reserves building up in the optional life insurance program, the GIC seized on the opportunity to improve this program for enrollees. The GIC successfully negotiated with its carrier, UnumProvident, to lower premiums. Optional Life insurance rates for this enrollee-pay-all program were reduced by an average of 25% for most participants beginning July 1, 2004. In conjunction with this rate reduction, the GIC offered the first 'open enrollment' since 1988 during the spring enrollment period. A record 13,000-plus employees took advantage of the open enrollment with over 6,500 enrolling for the first time and another 6,500 increasing their optional life insurance coverage without having to provide "Evidence of Insurability".

GIC RETIREE DENTAL INSURANCE

After reviewing claims experience over the first two years in the new Retiree Dental Plan, the GIC negotiated a 13 percent rate decrease effective July 1, 2004. Additionally, benefits were enhanced with the calendar year maximum benefit increased from $750 to $850 and reimbursement levels increased, thereby reducing enrollees' potential out-of-pocket costs. These enhancements have improved the appeal of this retiree pay-all program and over 1,400 retirees enrolled for the first time during annual enrollment.

GIC DENTAL/VISION PROGRAM

The GIC aligned its dental benefits for managers, legislators, legislative staff and certain Executive Office employees with the best practices in dental care effective July 1, 2004. As a result, covered employees now have coverage for fluoride varnish if they have had periodontal surgery within the last four years and members under age 19 have molar sealant coverage.

HCSA AND DCAP PROGRAMS

The GIC rolled out the pre-tax Health Care Spending Account (HCSA) for its first full year during the fall 2003 open enrollment period. Employees were able to choose an annual election of up to $1,500 for medical-related expenses for calendar year 2004. The open enrollment for the Dependent Care Assistance Program (DCAP) for child-care expenses took place at the same time. To ensure that employees knew about these money-saving programs, GIC staff worked with the carrier to produce multiple communications, including the newsletter, e-mail messages, posters, pay stub messages, brochures, a direct mail solicitation, payroll staff presentations and onsite visits by the carrier to agencies across the state. As a result, HCSA enrollment jumped to 2,014, representing a 162% increase over the 2003 half-year enrollment. Participation in DCAP climbed to 1,138 enrollees, representing a 19% increase over the 2003 calendar year. Efforts are underway to boost these numbers further, as many employees who would benefit from these programs are not yet taking advantage of them.

LOOKING AHEAD

COLLABORATION

Collaborating with others has become more critical than ever with the continued escalation of health care costs. Improved quality and decreased costs can only be achieved through all players' collective efforts.

Executive Director Dolores Mitchell is an active board member on a number of national and state organizations focusing on patient safety (Leapfrog and the Massachusetts Coalition for the Prevention of Medical Errors), information technology (Massachusetts Health Data Consortium, MedsInfo-ED, and the National E-Health Initiative) and the interests of health care purchasers (Massachusetts Healthcare Purchasers Group). She is often asked to speak about these issues as a health care purchaser. The GIC frequently participates in events sponsored by the New England Employee Benefit Council (NEEBC) and is a member of the Massachusetts Compassionate Care Coalition, devoted to improving the quality and the availability of compassionate end-of-life care in Massachusetts.

Additionally, the GIC is one of eight state agency members of the Human Resources/Compensation Management System (HR/CMS) Executive Committee, which formulates and updates the long term goals for HR/CMS, as well as continuously works to improve the system's functionality and efficiency.

WHAT'S NEXT?

The GIC will continue to work with our plans to advance our Clinical Performance Improvement (CPI) Initiative. A nationally recognized health care information company is currently gathering and analyzing individual physician and hospital data from our plans. We are working with industry experts to develop mutually acceptable provider quality benchmarks (not an easy task!). Next year, we anticipate that enrollees will be able to use this information to research physicians and find out how they compare on quality and cost of care. We are also working with our health plans to continue to develop benefit designs that reward enrollees for selecting high-quality and cost-effective care.

Communications will continue to play a vital role in our CPI Initiative's success. To help enrollees understand the CPI Initiative, we have developed a new Select & Save logo, which will be used to designate plans that reward enrollees for choosing high-quality, cost-effective providers. Additionally, we are planning to enhance our website to give enrollees additional tools to help them take charge of their health.

For FY05 and beyond the GIC will continue to position itself as a leader in health care quality and affordability. Our CPI Initiative continues to evolve, and the GIC is working on multiple fronts to help ensure its success. With all participants involved, the initiative will help to keep premium increases down while improving the quality of care provided to GIC enrollees – creating a true sea change in the way health care is delivered and used.

Financial Reports

GROUP INSURANCE COMMISSION
Statement of Expenditures
JULY 1, 2003 - JUNE 30, 2004

DESCRIPTION	COMMONWEALTH	EMPLOYEES
Administration*	$1,957,889	$0
State Employees and Retirees' Basic Life Insurance	$6,875,739	$1,387,502
State Employees' Optional Life Insurance	$0	$18,947,581
State Employees' Health Insurance**	$730,413,784	$159,615,945
State Employees' Dental And Vision for Managers, Legislators, Legislative Staff and Certain Employees of the Executive Offices	$5,477,384	$966,596
Long Term Disability For State Employees	$0	$8,850,861
Elderly Governmental Retirees' Health Insurance	$762,359	$48,745
Retired Municipal Teachers' Life Insurance	$795,003	$165,293
Retired Municipal Teachers' Health Insurance	$43,337,558	$6,847,500
Grand Totals	$789,619,716	$196,830,023

* Plus an additional estimated $962,261 from employees' trust funds and $324,999 from rate stabilization reserves which were used to pay employees' salaries as well as other administrative costs such as postage, telephone and supplies. These amounts are shown on the next two statements.

** Medical and prescription drug co-payments and deductibles for FY04 totaled approximately $97.6 million

RATE STABILIZATION RESERVE STATEMENT
JULY 1, 2003-JUNE 30, 2004

RESERVE 7/1/03	BALANCE 7/1/03	RECEIPTS 7/1/03-6/30/04	EXPENDITURES 7/1/03-6/30/04	BALANCE 6/30/04
Basic Life	$560,761.90	$3,909.60	$142,984.02	$421,687.48
Optional Life	$13,559,185.67	$2,984,752.04	$0.00	$16,543,937.71
Employee Heatlh	$100,206.04	$335.01	$0.00	$100,541.05
Elderly Governmental Retiree Health	$518,623.01	$3,240.44	$237,815.32	$284,048.13
Retired Municipal Teacher Life	$90,136.42	$915.21	$0.00	$91,051.63
Retired Municipal Teacher Health	$24,195.88	$245.71	$0.00	$24,441.59
TOTAL	$14,853,108.92	$2,993,398.01	$380,799.34	$17,465,707.59

Financial And Trend Reports

EMPLOYEES' TRUST FUND STATEMENTS

STATE EMPLOYEES' TRUST FUND
JULY 1, 2003-JUNE 30, 2004

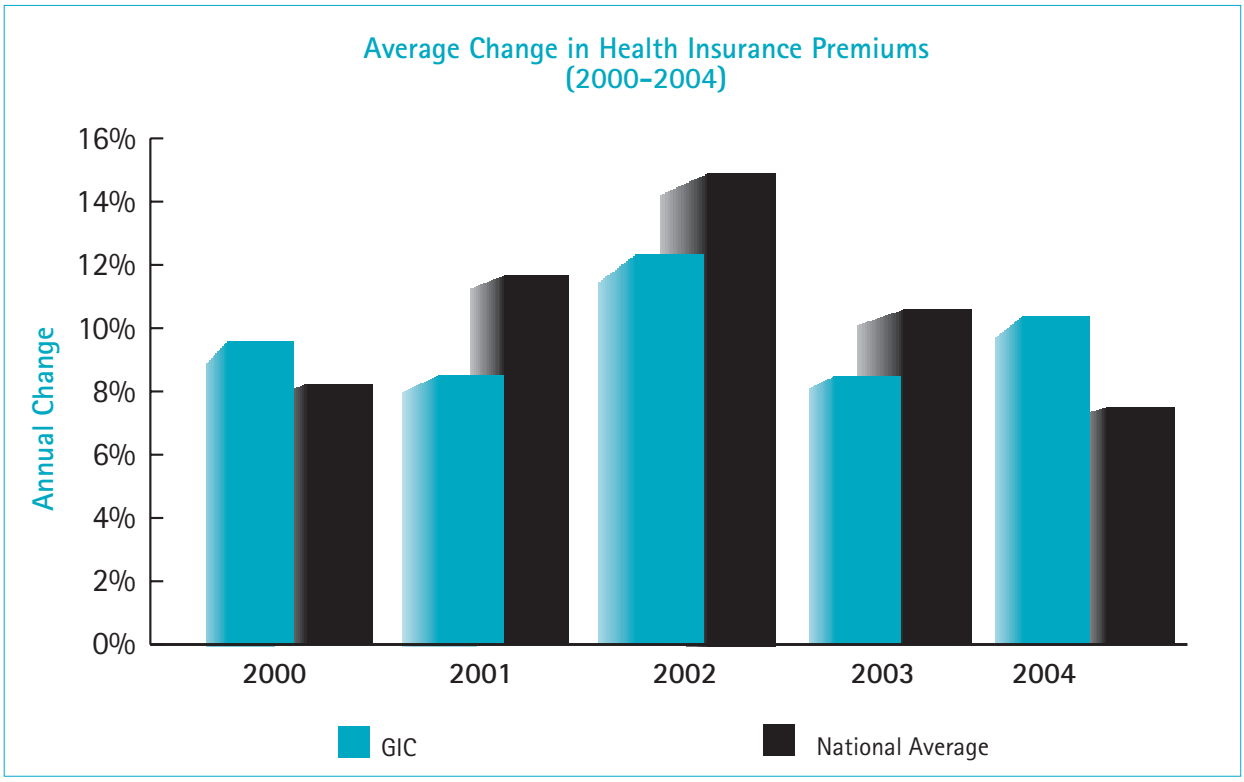
Balance 7/1/2003	$3,866,194.62
Receipts	$32,625.47
Expenditures	($1,144,275.75)
Balance 6/30/2004	$2,754,544.34

ELDERLY GOVERNMENTAL RETIREES' TRUST FUND
JULY 1, 2003-JUNE 30, 2004

Balance 7/1/2003	$369,143.50
Receipts	$3,632.77
Expenditures	($57,194.03)
Balance 6/30/2004	$315,582.24

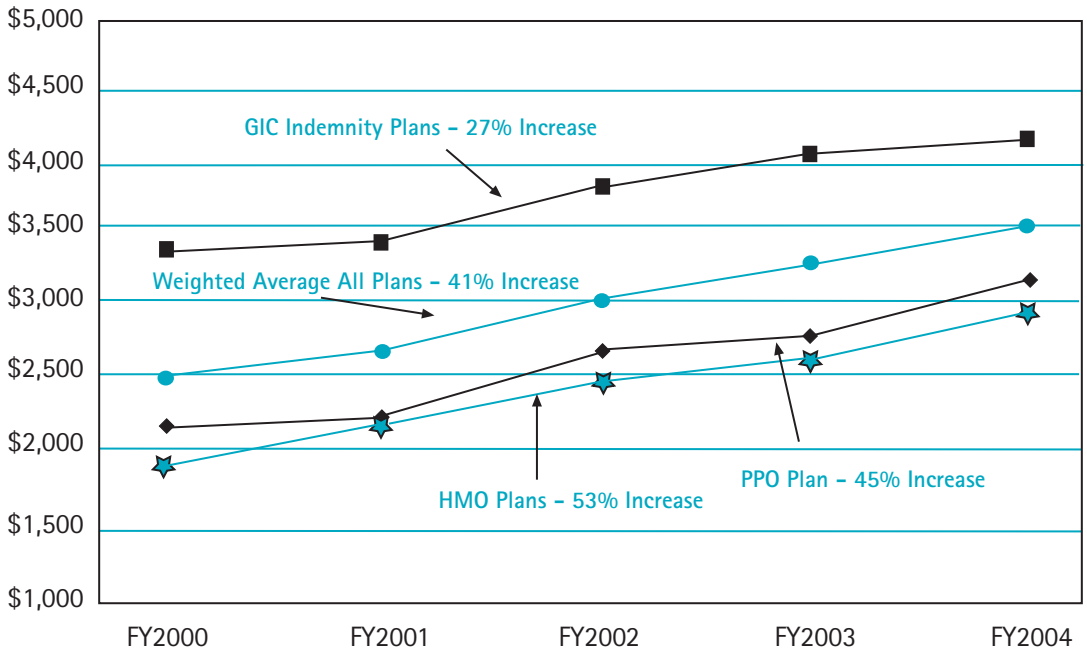
RETIRED MUNICIPAL TEACHERS' TRUST FUND
JULY 1, 2003-JUNE 30, 2004

Balance 7/1/2003	$433.95
Receipts	$3.11
Expenditures	($436.87)
Balance 6/30/2004	$0.19



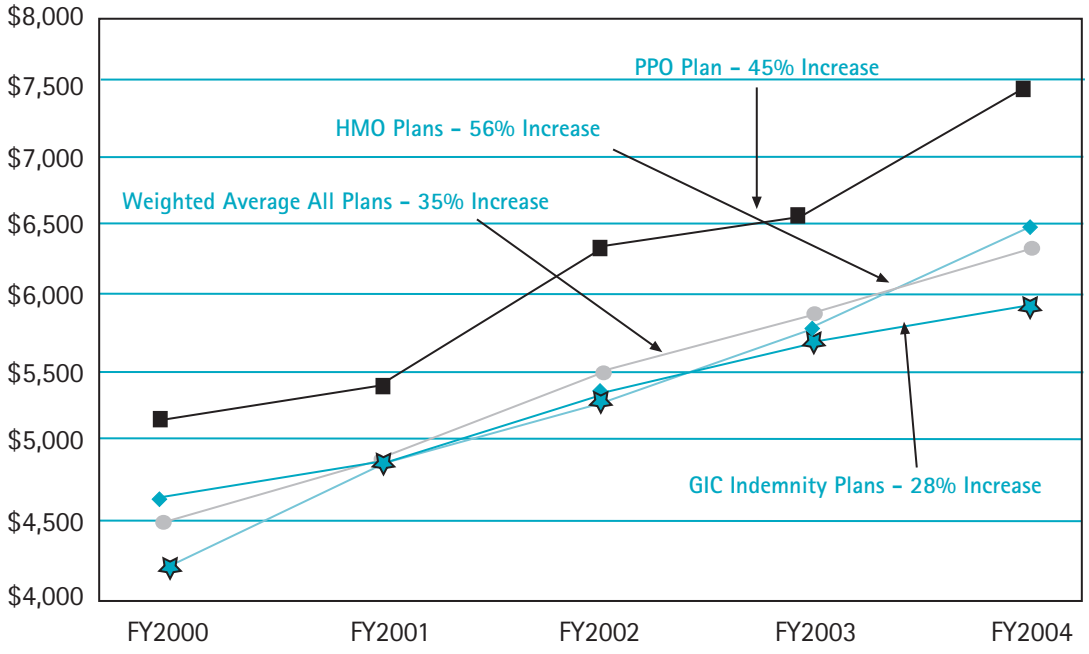
Trend Reports

Cost Per Capita*
(Total State and Employee/Retiree Share)



Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2004. Note that the fiscal year 2000 through 2003 data in this chart were restated to reflect the discontinuation of the Medicare Part B reimbursement.
*Does not include EGRs and RMTs or enrollee out of pocket expenses.

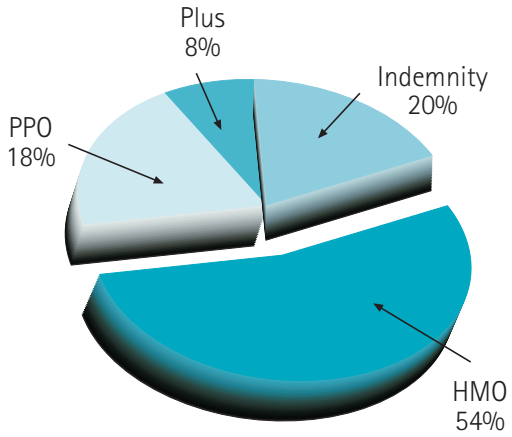
Cost Per Subscriber (Enrollee)*
(Total State and Employee/Retiree Share)



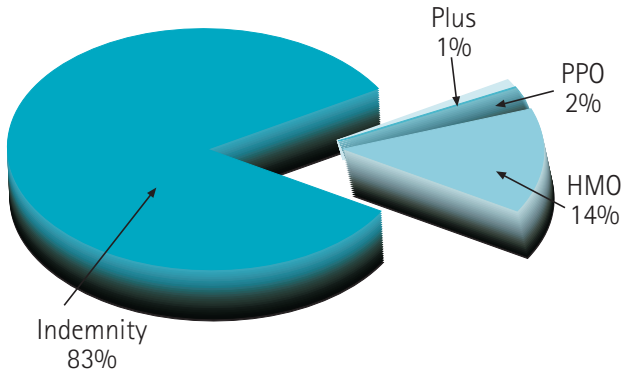
Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2004. Note that the fiscal year 2000 through 2003 data in this chart were restated to reflect the discontinuation of the Medicare Part B reimbursement.
*Does not include EGRs and RMTs or enrollee out of pocket expenses.

Trend Reports

Active Employees By Plan Type – FY04



Retirees and Survivors By Plan Type – FY04*



Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2004. *Does not include EGRs and RMTs.

HEALTH PLAN MEMBERSHIP BY INSURED STATUS FY04

	TOTAL ACTIVE*	TOTAL RETIREES & SURVIVORS	TOTAL EGR & RMT	TOTAL ENROLLEES	TOTAL DEPENDENTS	TOTAL LIVES
Indemnity Plan	15,142	52,688	8,974	76,804	23,560	100,364
Indemnity Plan PLUS	6,104	936	0	7,040	8,419	15,459
Commonwealth PPO	13,363	1,556	0	14,919	20,597	35,516
Fallon Community Health Plan-Direct	332	19	1	352	358	710
Fallon Community Health Plan-Select	2,512	1,160	49	3,721	3,569	7,290
Harvard Pilgrim Health Care	18,103	3,865	409	22,377	28,517	50,894
Health New England	4,398	1,181	105	5,684	6,603	12,287
Neighborhood Health Plan	810	43	1	854	910	1,764
Tufts Health Plan	15,592	2,608	397	18,597	22,692	41,289
Total Indemnity Plan	21,246	53,624	8,974	83,844	31,979	115,823
Total PPO	13,363	1,556	0	14,919	20,597	35,516
Total HMOs	41,747	8,876	962	51,585	62,649	114,234
TOTAL ALL	76,356	64,056	9,936	150,348	115,225	265,573
Indemnity Plan % Total	28%	84%	90%	56%	28%	44%
PPO % Total	18%	2%	0%	10%	18%	13%
HMO % Total	55%	14%	10%	34%	54%	43%

*Active enrollment includes enrollment figures for students 24 and over.
Source: Pool I Age/Sex Composition Analysis, Fiscal Year 2004 and Pool II Age/Sex Composition Analysis, Fiscal Year 2004.

COMMONWEALTH OF MASSACHUSETTS
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